

If, for example, the rate has stood at 3 per cent it may be increased by stages to 7 per cent, and even to a higher level, so that the employment of money in England in the form of loans (since owners of money can thus lend here at, for example, the 7 per cent) becomes substantially more remunerative than" would be its similar use in foreign markets; and money consequently is retained and attracted here to secure this advantage.

Until about seventy years ago the policy of the Bank on the occurrence of withdrawals of gold consisted either in letting affairs right themselves, or contracting their grant of loans or extending them. The plan of increasing the rate of discount was not adopted, and, indeed, such a course would not then have been so available or efficient as it proves at present, since the transit of bullion was more expensive and less expeditious, and the amount of floating capital was considerably restricted, so that the attraction of a higher rate of interest was of inferior effect. It is when loanable capital is so large as to involve constant competition for its profitable use, and so capable of safe and ready transfer as to be promptly placed in quarters where that profit is secured, that the offer of a greater remuneration proves substantially efficient.

It is true, of course, that unless the increase in the bank-rate (the "official minimum") be followed by the similar action of other lenders—the banks generally—its operation will fail to an extent in the intended purpose. The banks of the kingdom, with their enormous accumulation of funds, must employ them profitably by offering* attractive or low terms to borrowers, and there is a tendency consequently in the market rate for loans to prove irresponsive to the action of the Bank. But in periods of grave urgency, when the Reserve (which signifies the reserves and therefore the solvency of all the banks) is subjected to momentous depletion, the general terms for the use of money are brought into close correspondence with the rate settled by the Bank. Banks at these periods increase the rate of

interest upon deposits, which helps, by this higher return, to retain and augment this form of loanable capital; and, as persons at home and abroad who possess i